

Contact: Patrice Sayre

### FUND MANAGER ISSUES

**Actions Requested:** Recommend that the Board approve:

- ▶ An increase in the investment commitment amount to Neuberger Berman Crossroads Fund XX from \$5.0 million to \$12.5 million for the University of Iowa Endowment; and
- ▶ The addition of a fund manager (Neuberger Berman High Yield) within the High Yield allocation of the Diversified portfolios.

**Background:** The Board of Regents investment policy requires that the investment advisor (Wilshire Consulting) provide recommendations and advice on matters regarding investment manager selection, retention, and termination. (<http://www.regents.iowa.gov/Policies/Chapter%207/chapter7.04.htm>)

### Analysis:

#### NEUBERGER BERMAN CROSSROADS FUND XX

At its meeting in September of 2012, the Board approved investment commitments to Neuberger Berman Crossroads Fund XX. For the University of Iowa Endowment portfolio, the amount was \$5.0 million.

Wilshire recommends amending the amount from \$5.0 million to \$12.5 million as a result of the current exposure in Private Equity being below target and also below the level of Private Equity in the Iowa State University Endowment.

Aside from cash flows and other circumstances that are unique to each school, it is intended that the Endowments are managed as similarly as possible given that they follow the same asset allocation policy and employ the same fund managers. This recommendation is contingent on the fund manager being able to accept additional subscriptions, which appears likely.

<i>As of March 31, 2014</i>	<u>University of Iowa</u>		<u>Iowa State University</u>	
	<u>\$000's</u>	<u>Allocation %</u>	<u>\$000's</u>	<u>Allocation %</u>
Total Endowment Assets	\$375,158	100.0%	\$164,214	100.0%
Private Equity Target Allocation	\$37,516	10.0%	\$16,421	10.0%
Private Equity Market Value	\$18,006	4.8%	\$10,238	6.2%
Unfunded Commitments	\$34,137	9.1%	\$18,432	11.2%
Market Value + Unfunded	\$52,143	13.9%	\$28,670	17.5%

(page 39 → [http://www.regents.iowa.gov/Meetings/DocketMemos/14Memos/June2014/0614\\_a&c02.pdf](http://www.regents.iowa.gov/Meetings/DocketMemos/14Memos/June2014/0614_a&c02.pdf))

The following table shows current and recommended commitment amounts for Neuberger Berman Crossroads Fund XX.

	<u>University of Iowa</u>		<u>Iowa State University</u>	
	<u>Current</u>	<u>Revised</u>	<u>Current</u>	<u>Revised</u>
Commitment Amount	\$5.0 million	\$12.5 million	\$1.875 million	n/a

(page 41 → [http://www.regents.iowa.gov/Meetings/DocketMemos/14Memos/June2014/0614\\_a&c02.pdf](http://www.regents.iowa.gov/Meetings/DocketMemos/14Memos/June2014/0614_a&c02.pdf))

DIVERSIFIED PORTFOLIOS / FIXED INCOME

Wilshire recommends addition of a fund manager within the High Yield allocation of the Diversified portfolios of each school.

Currently, Vanguard High Yield Fund accounts for 100% of the allocation in the Diversified Operating portfolios and State Street High Yield Bond Index Fund accounts for 100% of the allocation in the Diversified Intermediate portfolio.

(pages 9 and 24, respectively → [http://www.regents.iowa.gov/Meetings/DocketMemos/14Memos/June2014/0614\\_a&c02.pdf](http://www.regents.iowa.gov/Meetings/DocketMemos/14Memos/June2014/0614_a&c02.pdf))

Wilshire recommends the addition of Neuberger Berman High Yield, a fund manager already used in Endowment portfolios (approved by the Board in August of 2011).

Addition of this manager provides for greater diversification to the High Yield allocation. Further, it potentially reduces active risk (tracking error) because the Vanguard High Yield is actively managed with certain exposure biases relative to the asset class benchmark.